Aluminum Company of Canada, Ltd

1977

Financial Statements

McGILL UNIVERSITY

Aluminum Company of Canada, Ltd

CONSOLIDATED STATEMENT OF INCOME

year ending 31 December 1977

	in thousands of U.S. dollars	
	1977	1976
REVENUES		
Sales	$1,726,327	$1,455,066
Operating revenues	130,119	80,904
Other income (note 8)	5,704	10,178
	1,862,150	**1,546,148**
COSTS AND EXPENSES		
Cost of sales and operating expenses	1,464,298	1,362,621
Depreciation and depletion	75,440	66,790
Selling, research and administrative expenses	107,775	101,407
Interest on debt not maturing within one year	46,979	52,145
Other interest	5,852	9,554
Other expenses	7,714	2,373
	1,708,058	**1,594,890**
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY INCOME	**154,092**	**(48,742)**
Income taxes (note 9)		
Current	4,139	5,227
Deferred	47,562	(35,792)
	51,701	**(30,565)**
INCOME (LOSS) BEFORE EQUITY INCOME	**102,391**	**(18,177)**
Equity in net income of companies 20-50% owned (note 1)	68	945
NET INCOME (LOSS)	**$ 102,459**	**$ (17,232)**

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

year ending 31 December 1977

	in thousands of U.S. dollars	
	1977	1976
SOURCE OF FUNDS		
Net income (Loss)	$102,459	$(17,232)
Depreciation and depletion	75,440	66,790
Deferred income taxes	47,562	(35,792)
Other	154	(1,024)
From operations	**225,615**	**12,742**
New debt	27,607	84,425
Preferred shares	100,000	—
Common shares	843	81,207
Disposals of plant and equipment	10,761	3,107
Other (net)	17,773	9,761
	382,599	**191,242**
APPLICATION OF FUNDS		
Plant and equipment	131,435	67,439
Investments	1,188	6,004
Debt repayments	108,647	141,548
Redemption of preferred shares (par value)	1,908	4,471
Dividends	35,063	18,106
	278,241	**237,568**
INCREASE (DECREASE) IN WORKING CAPITAL (note 11)	**104,358**	**(46,326)**
Working capital — beginning of year	351,823	398,149
WORKING CAPITAL — END OF YEAR	**$456,181**	**$351,823**

CONSOLIDATED BALANCE SHEET — ASSETS

31 December 1977

	in thousands of U.S. dollars	
	1977	1976
Current assets		
Cash and time deposits	$ 18,318	$ 14,797
Receivables	201,885	176,689
Receivable from affiliated companies	88,869	60,801
Aluminum	235,713	194,292
Raw materials and other supplies	270,002	279,030
	814,787	**725,609**
Deferred charges	**15,701**	**30,115**
Deferred receivables (note 2)	**49,280**	**51,922**
Investments in companies owned 50% or less (note 1)	**30,200**	**29,195**
Property, plant and equipment (note 3)	**2,171,232**	**2,067,074**
Less: Accumulated depreciation and depletion	1,258,226	1,199,302
	913,006	**867,772**
TOTAL ASSETS	**$1,822,974**	**$1,704,613**

CONSOLIDATED BALANCE SHEET — LIABILITIES AND SHAREHOLDERS' EQUITY

31 December 1977

	in thousands of U.S. dollars	
	1977	1976
Current liabilities		
Payables	$ 208,302	$ 196,631
Short-term borrowings (principally from banks)	33,198	30,679
Payable to affiliated companies	8,908	10,561
Payable to parent company	81,823	102,843
Income and other taxes	2,373	9,551
Debt maturing within one year (note 4)	24,002	23,521
	358,606	**373,786**
Debt not maturing within one year (note 4)	**483,542**	**564,582**
Deferred credits (note 5)	**56,877**	**55,777**
Deferred income taxes	**134,583**	**87,021**
Shareholders' equity		
Cumulative redeemable preferred shares (note 7)		
4% First preferred sinking fund — par Can. $25		
Authorized — 145,684 shares		
Outstanding — 137,882 shares (1976 — 151,711)	3,133	3,447
4 1/2% Second preferred sinking fund — par Can. $50		
Authorized — 401,506 shares		
Outstanding — 381,076 shares (1976 — 412,527)	19,341	20,935
$2.00 Third preferred — par Can. $25		
Authorized — 4,000,000 shares		
Outstanding — 2,000,000 shares	49,235	49,235
Floating rate fourth preferred — par U.S. $25		
Authorized — 10,000,000 shares		
Outstanding — 4,000,000 shares	100,000	—
Common shares — without nominal or par value (note 7)		
Authorized — 20,000,000 shares		
Outstanding — 11,438,719 shares (1976 — 11,425,736)	331,654	330,811
Retained earnings (note 6)	286,003	219,019
	789,366	**623,447**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$1,822,974**	**$1,704,613**

Approved by the Board: PATRICK J. J. RICH, Director R. F. SHARRATT, Director

Aluminum Company of Canada, Ltd

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

year ending 31 December 1977

	in thousands of U.S. dollars	
	1977	1976
RETAINED EARNINGS — beginning of year	$219,019	$257,244
Net income (Loss)	102,459	(17,232)
	321,478	**240,012**
Underwriting commission and expenses of share capital issues	412	2,887
Dividends		
First preferred	132	151
Second preferred	815	971
Third preferred	3,739	3,984
Fourth preferred	2,377	—
Common	28,000	13,000
	35,063	**18,106**
RETAINED EARNINGS — end of year (note 6)	**$286,003**	**$219,019**

NOTES TO FINANCIAL STATEMENTS

in thousands of U.S. dollars

1. SUMMARY OF ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all companies more than 50% owned. In addition, under the equity accounting principle, consolidated net income includes the Company's equity in the net income or losses of all companies 20-50% owned and the investments in these companies have been increased by the Company's share of their undistributed net income since acquisition. When the cost of an investment differs from the book value of the Company's equity therein at date of acquisition, the difference is amortized over the estimated useful life of the related fixed assets. Intercompany items and transactions between consolidated companies, including profits in inventories, are eliminated.

TRANSLATION OF ACCOUNTS INTO UNITED STATES DOLLARS

The consolidated financial statements are expressed in U.S. dollars since this is the principal currency of international trade in which the Company's business is mainly involved.

Accounts included in the consolidated statement of income, except depreciation and depletion, are translated at average rates of exchange prevailing during the year. Accounts included in the consolidated balance sheet are translated at rates of exchange at year end except that (a) inventories, investments, fixed assets and accumulated depreciation and depletion are at rates at dates of acquisition, (b) deferred income taxes are at rates at dates of origin, and (c) debts not maturing within one year and capital stock are at rates at dates of issue. Translation adjustments are included in income.

The Financial Accounting Standards Board in the United States requires that companies reporting to investors in the United States adopt the practice of translating long-term debt at current rates of exchange. However, as the Company's borrowings in currencies other than U.S. dollars have for the most part been invested in the country of the borrowing and will be repaid out of funds generated in the same currency, the Company believes that it could be misleading and cause violent fluctuations in reported earnings to recognize immediately translation gains or losses which arise from changes in exchange rates. Accordingly, the Company has not adopted the current rate method but has continued to follow its policy of translating such debt at historic rates, an accounting practice which is generally accepted in Canada. The table on page 7 compares reported net income with the net income that would have been reported using the FASB current rate method, and also shows the cumulative effect on retained earnings.

NOTES TO FINANCIAL STATEMENTS — in thousands of U.S. dollars

	1977		1976	
	As Reported	Current Rate Method	As Reported	Current Rate Method
Consolidated net income (Loss)				
First quarter (unaudited)	$ 9,862	$ 13,631	$ 5,284	$ 1,354
Second quarter (unaudited)	21,660	24,482	4,587	1,606
Third quarter (unaudited)	28,031	29,004	(17,948)	(15,858)
Fourth quarter (unaudited)	42,906	44,476	(9,155)	(4,180)
	$ 102,459	$ 111,593	$ (17,232)	$ (17,078)
Consolidated retained earnings				
Beginning of year	$ 219,019	$ 223,339	$ 257,244	$ 261,410
End of year	286,003	299,457	219,019	223,339

DEFERRED INCOME TAXES

Income tax regulations in Canada and certain other countries permit the deduction from taxable income of certain items (principally depreciation) in amounts which do not coincide with those charged for financial reporting purposes. The effect of such timing differences on income taxes otherwise payable is recognized as deferred income taxes.

INVENTORIES

Aluminum, raw materials and other supplies are stated at cost or net realizable value, whichever is the lower. The cost of inventories other than those in the United States is determined for the most part on the monthly average method. The cost of inventories of a subsidiary in the United States, amounting to $119 million, is determined by the last-in first-out method, which is permitted for income tax purposes. Had such inventories been valued on the monthly average method, the value would have been $70 million higher.

OTHER

Property, plant and equipment includes the cost of renewals and betterments. Repairs and maintenance are charged against income as incurred.

Depreciation is calculated on the straight-line method using rates based on the estimated useful lives of the respective assets. Depletion, not significant in amount, is calculated on the unit of production basis.

2. DEFERRED RECEIVABLES

Deferred receivables include $42 million (1976 — $44 million) due from the Government of Guyana over the period 1979 to 1991 in respect of the nationalization in 1971 of the Company's bauxite and alumina assets in that country. This amount bears interest at 6% per annum.

NOTES TO FINANCIAL STATEMENTS — in thousands of U.S. dollars

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Net 1977	Net 1976
Land, and water rights	$ 48,956	$ 286	$ 48,670	$ 48,624
Mineral properties, rights and development	15,348	7,579	7,769	8,949
Raw material, power and other facilities	913,743	587,065	326,678	322,158
Smelting facilities	792,847	477,005	315,842	283,460
Fabricating facilities	400,338	186,291	214,047	204,581
	$ 2,171,232	$ 1,258,226	$ 913,006	$ 867,772

Expenditures in 1978 are expected to be approximately $250 million.

4. DEBT NOT MATURING WITHIN ONE YEAR

	1977	1976
Aluminum Company of Canada, Ltd		
*Bank loans under $200 million revolving credit agreement	$ —	$ 50,000
9 1/2% Sinking fund debentures, due 1995	100,000	100,000
10 3/4% Sinking fund debentures, due 1994 (Can. $75 million)	76,500	76,500
9 3/8% Sinking fund debentures, due 1991 (Can. $55 million)	54,512	56,391
4 1/2% Sinking fund debentures, due 1980	7,424	11,710
7 1/8% Serial debentures, due 1978/1979 (Can. $20 million)	19,900	29,850
9 1/2% Sinking fund debentures, due 1988	50,000	50,000
5.10% Notes, due 1978/1992	67,500	72,000
Other debt, due 1978/2001	12,117	10,852
Alcan Aluminum Corporation (USA)		
9 1/2% Notes, due 1980/1994	45,000	45,000
4 3/4% Notes, due 1978/1984	23,799	27,200
Other debt, due 1978/1990	3,316	4,743
Alcan (Bermuda) Limited		
7 5/8% Notes, due 1978 (Lire 3.5 billion)	5,574	10,375
Alcan Jamaica Limited		
**Bank loans, due 1980/1983	44,136	44,400
Debt of other subsidiaries	389	529
	510,167	589,550
Less: Debt maturing within one year included in current liabilities (equivalent to $24.0 million and $23.5 million, respectively, at year-end rates of exchange)	26,625	24,968
	$ 483,542	$ 564,582

*Interest fluctuates with lender's prime commercial rate.
**Interest is related to the London Interbank offered rate.

After allowing for prepayments, sinking fund and other requirements over the next five years amount to $26.6 million in 1978, $22.1 in 1979, $33.6 in 1980, $38.8 in 1981 and $34.6 in 1982.

If translated into United States dollars at year-end rates of exchange, debt not maturing within one year would decrease by $13.5 million and, if there were no further change in exchange rates, this amount would be credited to income as the debt matures.

NOTES TO FINANCIAL STATEMENTS — in thousands of U.S. dollars

5. DEFERRED CREDITS

Deferred credits include $43 million prepayment by an associated company under an alumina tolling arrangement.

6. DIVIDEND RESTRICTIONS

Pursuant to the provisions of certain debt and share issues, $148 million of retained earnings at 31 December 1977 is not distributable as dividends either in cash or in kind on the common shares of the Company.

7. PREFERRED AND COMMON SHARES

The authorized capital was increased on 24 June 1977 by the creation of 10,000,000 Floating Rate Preferred Shares of the par value of U.S. $25 per share. On 5 July 1977, 4,000,000 shares were issued in three equal series for a total consideration of $99,600 after payment of agents' fees of $400. The dividend rate of the fourth preferred shares is variable and related to the prime commercial rate for U.S. dollar demand loans in Canada. The shares are retractable in series at the option of the holder at par on 5 July 1984, 1985 and 1986 respectively.

In 1977, the authorized number of 4% first preferred and 4½% second preferred shares was reduced from 158,526 to 145,684 and from 503,508 to 401,506, respectively.

Maximum annual sinking fund requirements for the retirement of the first and second preferred shares amount to the equivalent of Can. $2.7 million per annum. The 1978 sinking fund requirements have been met by purchases in the open market. The Company shall, during each calendar quarter beginning 1 January 1978, purchase for cancellation 15,000 third preferred shares in the open market if available at a price not exceeding Can. $25 per share. If after all reasonable efforts the Company is unable to purchase an aggregate of 60,000 shares in any calendar year, the obligation for the calendar year shall be extinguished.

The preferred shares also may be called for redemption at the option of the Board of directors at the following prices:

4% First preferred shares — on 20 days' notice at Can. $26.375 per share.

4½% Second preferred shares — on 30 days' notice for other than sinking fund purposes at Can. $51.75 per share and, for sinking fund purposes at Can. $51.50 per share.

$2.00 Tax deferred retractable preferred shares — on 30 days' notice at Can. $27.00 per share during the 12 months beginning 1 December 1980, Can. $26.80 during the succeeding 12 months and reducing by Can. $0.30 per share in each of the succeeding twelve-month periods until 30 November 1987, after which the shares will be redeemable at Can. $25.00 per share.

Floating rate preferred shares — redeemable after 5 July 1978 on any dividend payment date on 90 days' notice at U.S. $25 per share.

Any partial redemption must be made on a pro rata basis or by lot.

In 1977, the Company issued common shares to Alcan Aluminium Limited, the parent company, for an investment valued at Can. $0.9 million (U.S. $0.8 million).

8. OTHER INCOME

	1977	1976
Interest	$ 4,033	$ 4,770
Gain on redemption of debt	807	2,586
Other	864	2,822
	$ 5,704	$ 10,178

NOTES TO FINANCIAL STATEMENTS — in thousands of U.S. dollars

9. INCOME TAXES

The difference between the effective tax rate and prevailing tax rates in Canada results primarily from investment and other allowances in Canada and in the United States offset in part by the effect of translation of financial statements into United States dollars.

10. COMMITMENTS

Minimum rental commitments under long-term leases, including charter hire of ships, amount to $12.2 million in 1978, $9.9 in 1979, $8.7 in 1980, $6.0 in 1981, $5.0 in 1982 and lesser annual amounts thereafter. Total rental expense amounted to $53.2 million for 1977 (1976 — $50.5).

See also reference to capital expenditures in note 3 and debt repayments in note 4.

11. CHANGES IN WORKING CAPITAL

	1977	1976
Current assets		
Cash and time deposits	$ 3,521	$ (12,644)
Receivables	25,196	8,475
Receivable from affiliated companies	28,068	(20,769)
Aluminum, raw materials and other supplies	32,393	23,745
	89,178	(1,193)
Current liabilities		
Payables and short-term borrowings	14,190	(6,051)
Payable to affiliated companies	(1,653)	(3,231)
Payable to parent company	(21,020)	49,248
Income and other taxes	(7,178)	6,440
Debt maturing within one year	481	(1,273)
	(15,180)	45,133
Net increase (decrease)	$ 104,358	$ (46,326)

12. PENSION PLANS

The Company and its subsidiaries (with some exceptions) have established pension plans in the principal countries where they operate, for the greater part contributory and generally open to all employees. The total pension expense in 1977 was $27.1 million ($24.4 in 1976) which includes, as to certain of the plans, amortization of unfunded actuarial liabilities which the Company and its subsidiaries are funding, for the most part over a period of 15 years. Based on the most recent actuarial reports, the unfunded actuarial liabilities amounted to $7.5 million for currently vested benefits, and $87.6 million for total benefits.

13. REMUNERATION OF DIRECTORS AND OFFICERS

The Company has 12 directors who receive no remuneration as such. There are 15 officers, six of whom are directors of the Company. The aggregate remuneration received from the Company by these officers and by past officers amounted to $1,219 in 1977 ($1,107 in 1976).

NOTES TO FINANCIAL STATEMENTS — in thousands of U.S. dollars

14. QUARTERLY FINANCIAL DATA (unaudited)

	1977			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 443,340	$ 480,157	$ 459,363	$ 479,290
Costs and expenses	427,591	445,759	412,523	422,185
Income taxes	6,181	12,186	18,896	14,438
Equity income	294	(552)	87	239
Net income	$ 9,862	$ 21,660	$ 28,031	$ 42,906

	1976			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 362,333	$ 436,199	$ 360,635	$ 386,981
Costs and expenses	353,647	423,534	399,733	417,976
Income taxes	3,531	8,513	(20,951)	(21,658)
Equity income	129	435	199	182
Net income (Loss)	$ 5,284	$ 4,587	$ (17,948)	$ (9,155)

15. REPLACEMENT COST DATA (unaudited)

The table below provides disclosure of replacement cost data as required by the Securities and Exchange Commission Accounting Series Release No. 190.

The Company and its major operating subsidiaries made detailed reviews of their fixed assets and inventories, and calculated the replacement cost mainly by valuing specific assets or operating capacities. Valuations for fixed assets and inventories of the remaining smaller subsidiaries were based on appropriate indices. Depreciation and depletion expense was calculated on the straight-line method applying existing rates to the estimated replacement cost. Replacement cost of sales was determined by adjusting historical costs for the estimated inflation occurring during the period between production and sales.

Because of the lack of established standards, the considerable degree of continuing experimentation, and the many subjective judgements required in the compilation of the data, the figures provided cannot give more than a general impression of the values involved, and specific comparisons with other reported data are unlikely to be valid. Any attempt to present a valuation of assets which might replace the existing assets is not sufficiently factual for a satisfactory accounting presentation.

	1977		1976	
	Estimated Replacement Cost Basis	Historical Cost Basis	Estimated Replacement Cost Basis (b)	Historical Cost Basis
Productive capacity				
Property, plant and equipment (a)	$ 6,261.0	$ 2,171.2	$ 6,086.2	$ 2,067.1
Accumulated depreciation and depletion	3,845.5	1,258.2	3,818.4	1,199.3
	2,415.5	913.0	2,267.8	867.8
Depreciation and depletion expense	192.9	75.4	192.2	66.8
Inventories	611.2	505.7	559.0	473.3
Cost of sales and operating expenses	1,489.3	1,464.3	1,376.0	1,362.6

(a) Land, water rights and mineral properties have not been revalued and are included in the estimated replacement cost at their historical cost of $64.3 million ($64.3 million in 1976). Accumulated amortization and depletion relating to these assets of $7.9 million ($6.7 million in 1976) also have not been revalued.

(b) Restated to recognize more detailed engineering studies of some facilities.

AUDITORS' REPORT

To the Shareholders of
Aluminum Company of Canada, Ltd

We have examined the consolidated balance sheets of Aluminum Company of Canada, Ltd as at 31 December 1977 and 1976 and the related consolidated statements of income, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the Company as at 31 December 1977 and 1976 and the results of its operations and the changes in its financial position for the years then ended, in accordance with generally accepted accounting principles in Canada, applied on a consistent basis.

PRICE WATERHOUSE & Co.
Chartered Accountants

Montréal, Canada
2 February 1978

Aluminum Company of Canada, Ltd

DIRECTORS

DUNCAN C. CAMPBELL — Vice President, Public Affairs, Alcan Aluminium Limited

HAROLD CORRIGAN — President, Alcan Canada Products Limited

DAVID M. CULVER — President, Alcan Aluminium Limited

BRUCE L. DAVIS — President, Alcan Project Services Limited

NATHANAEL V. DAVIS — Chairman of the Board and Chief Executive Officer, Alcan Aluminium Limited

R. F. DONAHOE — Executive Vice President and Director of Operations

JOHN H. HALE — Executive Vice President, Finance, Alcan Aluminium Limited

PAUL H. LEMAN — Vice Chairman of the Board, Alcan Aluminium Limited

ROGER PHILLIPS — President, Alcan Smelters and Chemicals Ltd

PATRICK J. J. RICH — Regional Executive Vice President, Alcan Aluminium Limited

R. F. SHARRATT — Vice President

ERIC F. WEST — President, Alcan Aluminum Corporation

OFFICERS

*DAVID M. CULVER — Chairman of the Board

*PATRICK J. J. RICH — President and Chief Executive Officer

HAROLD CORRIGAN — Executive Vice President

R. F. DONAHOE — Executive Vice President

J. J. GAGNON — Executive Vice President

ROGER PHILLIPS — Executive Vice President

GERALD CLARK — Vice President

M. G. O'LEARY — Vice President

JOHN D. RUNKLE — Vice President

R. F. SHARRATT — Vice President

CLAUDE M. TÉTRAULT — Vice President

JACQUES VAILLANCOURT — Vice President

F. C. WINSER — Vice President

CLAUDE AUBIN — Secretary

ALLAN A. HODGSON — Treasurer

*Effective 1 January 1978

Aluminum Company of Canada, Ltd
1 Place Ville Marie, Montréal, Québec, Canada
Mail: Box 6090, Montréal, Québec, Canada H3C 3H2

Printed in Canada